



Audit Report

Greater Letaba Municipality

30 June 2018



**AUDITOR-GENERAL
SOUTH AFRICA**

Report of the auditor-general to Limpopo Provincial Legislature and the Municipal council on Greater Letaba Municipality

Report on the audit of the Annual Financial Statements

Opinion

1. I have audited the financial statements of the municipality set out on pages 01 to 12, which comprises the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa 2003, (Act No 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2016 (Act No 3 2016) (DORA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unqualified opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Material impairments

8. As disclosed in notes 4, 5 and 6 to the financial statements, material impairments to the amount of R1 086 000, R56 697 235 and R83 420 426 were made to receivables from exchange transactions, receivables from non-exchange transactions and consumer debtor respectively, as a result of irrecoverable debt.

Unauthorised expenditure

9. As disclosed in note 32 to the financial statements, unauthorised expenditure to the amount of R51 199 769 was incurred in the current year due to the municipality overspending on its approved budget

Irregular expenditure

10. As disclosed in note 34 to the financial statements, irregular expenditure to the amount of R96 376 555 was incurred, as a proper tender process had not been followed.

Material losses – electricity

11. As disclosed in note 42 to the financial statements, material electricity losses of 7 658 574 (2017: 6 986 097) was incurred, which represents 47.69% (2017:51.75%) of total electricity purchased. The losses was due to illegal connections, faulty meters, incorrect meter readings and other sundry distribution losses.

Other matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

| Development priorities | Pages in the annual performance report |
|---|--|
| Key Performance Area (KPA) 2: Basic services and infrastructure | 15 – 22 |
| Key Performance Area (KPA) 4: Municipal Financial Viability | 24 – 29 |

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Key Performance Area 2 – Basic Services

Reported indicators and targets not consistent or complete when compared with planned indicators and targets

To purchase & deliver 30 Skips Bins for waste management by 30 June 2018

23. The indicators approved in the integrated development plan and service delivery business implementation plan was To purchase & deliver 30 Skips Bins for waste management by 30 June 2018. However, the indicator reported in the annual performance report was To purchase 30 Skips Bins for waste management by 30 June 2018. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Various Targets

24. The targets approved in the service delivery business implementation plan was X details below). However, the targets reported in the annual performance report was Y (details below). This is not in line with the requirements of section 41(c) of the MSA.

| Planned indicators/ measures per annual planning document | Planned targets per annual planning document | Planned targets per APR | Reported actual achievement per APR |
|---|--|---|--|
| To Upgrade Modjadji Ivory Route from gravel to paving for 1.8km by 30 June 2018 | Completed by 30/06/2018 | Upgrading of Modjadji Ivory Route upgraded for 800km completed (Phase 1 of 4km) | Project for Modjadji Ivory for 800m Phase 1 completed |
| To Upgrade Seatlaleng street from gravel to paving for 1.8km by 30 June 2018 | Completed by 30/06/2018 | Upgrading of Seatlaleng upgraded for 1.8km completed | Project complete |
| To Refurbish Modjadjiskloof K53 Testing ground by 30 June 2018 | Completed by 30/06/2018 | Completion of Modjadjiskloof DLTC project completed | Project delayed due to late appointment of vending system service provider |

Changes to indicators and targets not approved

To purchase & deliver 30 Skips Bins for waste management by 30 June 2018s

25. The indicators approved in the service delivery business implementation plan was To purchase & deliver 30 Skips Bins for waste management by 30 June 2018. However, the indicators was changed to To purchase 30 Skips Bins for waste management by 30 June 2018 without the necessary approval as required by section 25(2) of the MSA.

Various targets

26. The target approved in the service delivery business implementation plan was X (details below). However, the target was changed to Y (details below) without the necessary approval as required by section 25(2) of the MSA.

| Planned indicators/ measures per annual planning document | Planned targets per annual planning document | Planned targets per APR | Reported actual achievement per APR |
|---|--|--|--|
| To Upgrade Modjadji Ivory Route from gravel to paving for 1.8km by 30 June 2018 | Completed by 30/06/2018 | Upgrading of Modjadji Ivory Route upgraded for 800km completed (Phase 1 of 4km) | Project for Modjadji Ivory for 800m Phase 1 completed |
| To Upgrade Seatlaleng street from gravel to paving for 1.8km by 30 June 2018 | Completed by 30/06/2018 | Upgrading of Seatlaleng upgraded for 1.8km completed | Project complete |
| To Refurbish Modjadjiskloof K53 Testing ground by 30 June 2018 | Completed by 30/06/2018 | Completion of Modjadjiskloof DLTC project completed | Project delayed due to late appointment of vending system service provider |

Reported achievements were not consistent with the planned and reported indicator and target

Electrification of 832 HH in Tshabela Mmatswale, Ntswele motse A & B, Sebinakgolo, Las Vegas and Rapitsi villages by 30 June 2018

27. The planned indicator and target were completed by 30/06/2018, but the reported achievements referred to was 06 of 07 projects infrastructure completed, as required by Section 121(3)(f) of the MFMA

Reported achievement did not agree with the evidence provided

Various Indicators

28. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

| Indicator | Actual Reported Target | Audited |
|---|--|---------------------------|
| To construct a sports complex at Rotterdam(Phase1 and 2) by 30 June 2018 | To construct a sports complex at Rotterdam(Phase1 and 2) by 30 June 2018 | Project still in progress |
| To purchase and deliver 2000 chairs and 10 Tables at Mokwawaila & Senwamokgope community halls by 30 June 2018 | 2000 chairs and 10 tables purchased and delivered to senwamokgope and mokwaila community halls | 1200 chair were received. |
| HH with access to electricity by 30 June 2018 | 56905 HH with access to electricity by 30 June 2018 | 67 067. |
| %of land use applications processed(#of applications received/#of land use applications processed)within 90 days of receipt | 100%,73/73 applications received and processed | 0% |

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target X (details below). This was due to limitations placed on the scope of my work. I was

unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of (details below) as reported in the annual performance report.

| Indicator | Actual Reported Target | Audited |
|--|--|---------|
| To upgrade Electricity Infrastructure to NERSA standards by 30 June 2018 | 85% Progress | 0% |
| Electrification of 832 Households in Tshabela Mmatswale, Ntswale Motse A & B, Sebinakgolo, Las Vegas and Rapitsi Villagers | 06 out of 07 projects infrastructure are completed in Tshabela, Mmatswale, Ntswale Motse A & B, Sebinakgolo, Las Vegas and Rapitsi villages. | 0 |

Key Performance Area 4: Municipal Financial Viability

Reported achievement did not agree with the evidence provided

of HH receiving Free Basic Services

30. The achievement for target of households receiving free basic services reported in the annual performance report was 1501. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 56.

Other matter

31. I draw attention to this matter below.

Achievement of planned targets

32. Refer to the annual performance report on pages 15 to 22; 24 to 29 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 23 to 30 of this report.

Report on the audit of compliance with legislation

Introduction and scope

33. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

34. The material findings on compliance with specific matters in key legislations are as follows:

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure amounting to R96 376 555 as disclosed in note 34 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non compliance with the supply chain management policy and its regulations.

36. Reasonable steps were not taken to prevent unauthorised expenditure to the amount of R51 199 769 as disclosed in note 32, as required by section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of certain divisions and votes.
37. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R97 526, as disclosed in note 33 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by late payments to suppliers.

Annual financial statements, performance and annual report

38. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.
39. Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Consequence management

40. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA
41. Fruitless expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Procurement and contract management

42. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c)
43. The preference point system was not applied in some procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM regulation 28 (1)(a).

Other information

44. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
45. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

46. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
47. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

48. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the unqualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

49. There was not a adequate detailed review of the financial statements and the annual performance report, resulting in several misstatements not identified and timeously corrected.

Financial and performance management

50. Supply chain management processes were inadequate resulting in irregular expenditure.
51. The financial statements and other information to be included in the annual performance report were not reviewed for accuracy and completeness by the accounting officer.

Auditor – General

Polokwane

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.